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SOUTH VIETNAM

Military activity remains high as the Communists' May-June campaign moves into its third week. Although sharp clashes are being reported throughout the country, the major fighting has been in the Binh Duong Province battleground northwest of Saigon, and the Elephant's Foot area of the northern delta.

Last night Communist gunners shelled Bien Hoa airbase northeast of Saigon, hitting a napalm storage area and killing several Viet Cong prisoners of war in a nearby detention center. The Communists also sank a Korean merchant ship moored in the Saigon River south of the capital.

In the Binh Duong fighting, elements of the ARVN's 18th Division have crossed the Thi Tinh River in an attempt to recover three outposts west of Ben Cat. ARVN commanders expect heavy fighting, as the NVA/VC have at least two regiments of the 9th NVA Division in the area along with supporting artillery, antiaircraft, and sapper elements. [REDACTED]

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ARVN forces in the delta are attempting to dislodge elements of the 5th NVA Division from the Long Khot operations base, abandoned to the Communists on May 20. Initial reports indicate that government troops have encountered stiff resistance to their efforts to retake the base.

In the central highlands of Military Region 2, the government operation against Vo Dinh remains bogged down a few miles north of Kontum city. The NVA/VC have thus far been able to hinder the ARVN advance with harassing attacks by fire.

To the south, Communist attackers on May 30 overran the government outpost at Tieu Atar, the second isolated outpost to fall in the highlands since the May-June campaign began. Government commanders are pessimistic about the chances of protecting other isolated camps, but feel the NVA/VC do not possess sufficient strength to threaten seriously either Kontum or Pleiku cities. [REDACTED]

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USSR-ALGERIA

Soviet Defense Minister Grechko's four-day official visit to Algeria, which ended on May 31, was probably aimed at strengthening Soviet-Algerian relations as part of Moscow's effort to improve its position in the Middle East.

Press coverage of the visit and the final communiqué indicate that Grechko's discussions with the Algerians concentrated on the Middle East situation and attempted to revitalize Moscow's lagging military aid program as a way of strengthening bilateral relations. The communiqué did not, however, specify any new economic or military aid agreements.

The highlight of the visit was Grechko's two meetings with Boumediene, to whom Grechko delivered a personal message from General Secretary Brezhnev. Brezhnev reportedly praised Algeria's role in the nonaligned movement and made clear Moscow's determination to play an "active" role in all phases of Middle East peace negotiations.

The Grechko visit is consistent with Soviet efforts to consolidate relations with various Arab states in preparation for an early resumption of the Geneva peace conference. Moscow seems to be taking advantage of Algeria's receptiveness in this regard. Grechko's visit and the ensuing talks with Algerian leaders may be followed by a trip to Algiers by Foreign Minister Gromyko, who reportedly is scheduled to arrive there in early June.

Grechko arrived in Algeria only a few days after the departure of the chairman of the Soviet State Committee for Foreign Economic Relations, Skachkov, who signed a Soviet-Algerian protocol on economic and technical cooperation. [REDACTED]

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USSR-EGYPT

The Soviets may be trying to put further pressure on Egyptian President Sadat by urging the East European states to cool their relations with Egypt. Moscow has already demonstrated its unhappiness with Sadat by holding back its own deliveries of military equipment.

The East German regime, at the behest of Moscow, has reportedly issued a directive that would limit existing trade relations with Egypt and discourage new commercial agreements. East German - Egyptian trade is not very significant, but if other East European countries followed suit, considerable pressure could be brought to bear on Cairo.



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US-USSR

Total trade between the US and the USSR in 1974 is likely to remain at about last year's level, but the US export surplus will be reduced by perhaps half.

US deliveries of grain and soybeans dropped sharply in the first quarter. Unless a bad harvest forces Moscow to buy more grain, total US deliveries of agricultural products this year will probably be less than half the 1973 level. US exports of machinery and equipment are climbing rapidly, and they will probably reach \$300-400 million for the year. Total US exports to the USSR will probably fall short of \$1 billion, down from the record \$1.2 billion in 1973.

US imports from the USSR will probably top those of any previous year. The sudden increase in fuel oil imports thus far suggests at least a doubling of fuel oil imports compared with 1973. [REDACTED]

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CHILE

In adopting new austerity measures to combat runaway inflation, the junta has signaled its support--at least for now--for Minister Leniz' free market recovery program.

Despite increasing dissatisfaction with the slow pace of recovery and growing consumer restiveness, Santiago intends to cut government employment by about 14,000 persons to help reduce public expenditures. The cut could eventually reach 50,000, adding to the 10-percent rate of unemployment. The junta has also decided to prohibit new public works projects.

Budget subsidies to most government agencies will be ended, in another step to cut public spending. Junta President Pinochet reportedly has also decided to eliminate subsidies for the largely government-owned ports and railroads, despite the possibility that these essential operations could thereby be forced to shut down.

To spur increased agricultural production, the junta has authorized \$150 million in new credits to farmers and is considering increasing taxes on unused or underutilized land. Improved production is essential to the success of the economic recovery program. Record copper prices and production will enable Chile to finance a near-record level of agricultural imports this year, but copper earnings next year could fall because of a likely drop in world copper prices.

More changes in the economic recovery program are likely. The Copper Corporation is to be reorganized in an attempt to reduce costs. The junta is also studying ways to reduce tax evasion in order to increase public revenues. [REDACTED]

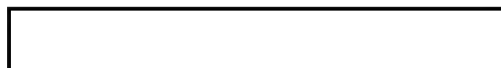
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